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A DEEP SEA FLEET FOR CANADA

Submission to the Task Force on
Deep Sea Shipping


July 9, 1984



Canadian Shipbuilding and Ship Repairing Association
L'Association des Chantiers Maritimes Canadiens



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PAST AND PRESENT SITUATION

At the end of the Second World War, Canada had the third largest merchant marine service and shipbuilding industry in the world. Our merchant service and shipbuilding yards played a pivotal role in the Allied victory.

But shortly after the war, Canada began to rely almost exclusively on foreign-flagged ships to transport its goods. There was a conscious decision to phase out the outmoded Canadian merchant fleet in the face of mounting labour costs and foreign competition. Canadian exporters were given free reign to pursue the open market and obtain the lowest possible freight rates. By 1981, this arrangement resulted in a \$5 billion deficit in Canada's balance of payments for shipment of our overseas trade. Less than one percent of our waterborne traffic with nations other than the United States is currently carried by Canadian-registered vessels.

In this brief we shall attempt to point out why we should change this situation and develop a viable Canadian deep sea fleet that will improve our balance of payments and contribute to the overall growth of the Canadian economy. Background information on the Canadian Shipbuilding and Ship Repairing Association is at Annex A.

CHANGES NEEDED TO GOVERNMENT POLICIES

The CSSRA does not propose the exclusive use of the Canadian deep sea fleet for the transportation of Canadian goods, nor do we request that the deep sea fleet be built in Canada. We suggest a change in current government policies that will put Canada on an equal footing with other maritime nations. Once this has been achieved, we are confident that business will flow to a Canadian deep sea fleet and, ultimately, in much greater amounts than at present, to Canadian shipyards, ship repair firms and allied marine industries. The exporter should be free to choose what flag to use and the shipowner should have free access to the open market for vessel requirements.

There already exists a major Canadian-controlled and foreign-registered deep sea fleet. At the beginning of 1982, there were 114 vessels of 6,522,554 dwt in that fleet, registered mainly in the United Kingdom and Liberia. Canadian shipowners have stated time and again that they would prefer to register their fleets at home, and we have no doubt that it would make administration easier, but regressive government policies make this impossible. Only through changes in these policies can Canada regain the competitive edge it once had. Since the domestic deep sea fleet is essentially non-existent, changes in policy will not result in any significant costs.

The CSSRA calls for policy changes to create a positive environment for the development of a Canadian deep sea fleet. Many maritime nations vigorously support their deep sea fleets with subsidies and consider these fleets tools of national policy. But in Canada, the federal government's indifference toward a Canadian deep sea fleet has resulted in an almost total dependence on foreign ships to carry our estimated (in 1981) \$52.2 billion annual overseas trade.

Unlike other maritime nations, Canada taxes profits made in international shipping. Canada's capital cost allowance of 16 2/3 percent the first year, 33 1/3 percent the second and third year and 16 2/3 the fourth year for Canadian-built ships is the lowest level among all Organization for Economic Co-operation and Development (OECD) maritime nations. The United Kingdom provides a full 100 percent allowance during the ship's first year of operation. Furthermore, third party lease financing is no longer available. These policies discourage Canadian deep sea shipowners from flagging their ships in Canada.

Bringing Canadian deep sea shipping policies more into line with the rest of the maritime world would bring us closer to the realization of a fleet. Profits made internationally should no longer be taxed. Shipowners should qualify for tax concessions to build new Canadian-flagged tonnage and a more generous capital cost allowance should be introduced. The government should also revoke the 1976 decision to eliminate the third party lease financing arrangement. Federal and provincial governments should be encouraged to negotiate the carriage of a

percentage of our resource products or any non-manufactured goods in Canadian-flagged ships. This would add an element of industrial benefits into the product.

Canada's total reliance on market forces to provide low cost transportation is threatened by the growing number of bilateral shipping agreements, the United Nations Conference on Trade and Development (UNCTAD) agreement on Liner Conferences and the proposal now under discussion in UNCTAD to extend the 40/40/20 Liner Code on cargo reservation to bulk shipping. Third World and Soviet-bloc shipping lines are expanding at the expense of Western-owned shipping companies. At the present time Canada has no leverage to counter these developments which will undoubtedly increase with the consequent likelihood that freight costs will also rise.

One of the main reasons the Canadian merchant fleet was liquidated after the war was high labour costs. Opponents still point to labour costs as one of the drawbacks to a Canadian deep sea fleet. But this argument is no longer valid. Crew costs in Canada are now comparable to rates in northern Europe, Japan, Australia and the United States. Furthermore, the proportion of crew costs to overall operating costs has declined in recent years due to increased oil prices and technological developments which have reduced crew size.

Shipowners should be free to seek their vessel requirements on the open market. So that Canadian shipbuilders have the same advantages as foreign builders, Canada should provide domestic shipowners with concessionary financing similar to rates available abroad. We already do this for foreign orders financed in Canada through the Export Development Corporation (EDC) and this benefit should be extended to domestic orders. With concessionary financing in place, and with the likelihood that foreign subsidies will decline, more new shipbuilding orders would go to Canadian shipbuilders.

With a favourable policy environment, it is likely that a major portion of the Canadian-controlled fleet currently registered abroad would gradually be brought under the Canadian flag.

To avoid the costs of crew travel to Canada from foreign repair locations, more regular surveys and repairs would take place in domestic shipyards. This normally quite profitable maintenance work would benefit the Canadian ship repairing and allied industries. Repair yards on the Atlantic and Pacific coasts and along the lower St. Lawrence River, now operating below capacity, could service the fleet with few, if any, capital expenditures to meet this increased demand. However, there would likely be a requirement for an additional drydock on the Great Lakes.

BENEFITS OF A CANADIAN DEEP SEA FLEET

A deep sea fleet would provide a significant stimulus to the Canadian economy and reduce our balance of payments deficit. Shipping profits would remain in Canada and Canadian-flagged ships would employ Canadian crews. Jobs would be created for Canadians and taxes would be paid in Canada. Spin-off economic benefits would result from increased consumer demand and government revenues. Onshore shipping agencies and marine service industries such as insurance companies would locate in Canada, providing further employment and economic growth. New shipbuilding orders and a significant level of ship repair work would accrue to Canada. Expertise in international shipping would be developed in Canada.

The Canadian deep sea fleet would provide other benefits such as greater control over the movement of our trade. Canadian commerce could not be held hostage in a volatile and unpredictable international shipping market. Canada would be in a stronger bargaining position with foreign governments that insist on the use of their ships for trade with Canada. Our deep sea fleet could also be utilized to assist the Canadian Armed Forces in times of national emergencies.

Some relatively minor changes to existing policies are needed to create the environment to foster a Canadian deep sea fleet. The cost of these changes would be more than offset by the increased economic activity generated by a deep sea fleet. Once in place, Canada would capture a portion of the \$5 billion spent annually transporting our goods internationally.

SUMMARY OF RECOMMENDATIONS

- a) Federal and provincial governments should be encouraged to negotiate the carriage of a percentage of our resource products or any non-manufactured goods in Canadian-flagged ships.
- b) Eliminate taxation on profits made in international shipping.
- c) Shipowners should qualify for special tax concessions to build new Canadian-flagged tonnage.
- d) A more generous capital cost allowance for Canadian-built ships should be introduced.
- e) Revoke the 1976 decision to eliminate the third party lease financing arrangement.
- f) Provide domestic shipowners with concessionary financing similar to rates available for foreign orders financed in Canada through EDC.

THE CSSRA

The Canadian Shipbuilding and Ship Repairing Association (CSSRA) was founded in 1944. Its objectives are the preservation, maintenance and development of the Canadian shipbuilding, ship repairing and allied industries for the advancement of the industrial, technological, economic, social, defence and sovereign interests of Canada.

Through the activities of the various groups and committees - e.g. allied industries, technical, personnel and financial sections and productivity committee - the CSSRA promotes the exchange of information and discussion for the advancement of the industry. A major event - the Annual Technical Conference - attracts international attention and is usually attended by over 800 persons. Meetings are held across the country on a regular basis.

Our total membership is 92 organizations (list attached at Annex B) consisting of 22 shipbuilding and ship repair firms across the country who account for 97 percent of all ships over 100 gross tonnage built in Canada. These companies are over 95 percent Canadian-owned. The association also has 70 members that supply goods or services with substantial Canadian content to the industry. These range from steel and diesel engines to high technology electronic equipment and specialized consultant services.

Total value of CSSRA shipyard and CSSRA allied industries production was \$950,482,000, \$1,100,146,000 and \$739,465,000 in 1981, 1982 and 1983, respectively. In recent good years, total employment in the shipbuilding industry in Canada has been at the 16,000 level and it is reliably estimated that 5,000 are employed in marine work in the allied industries. Including the generating effect, shipbuilding normally accounts for over 45,000 jobs in the Canadian economy.

CSSRA MEMBERSHIP - MEMBRES DE L'ACMC**FULL MEMBERS - MEMBRES PLENIERS**

Allied Shipbuilders Limited
 Bel-Aire Shipyard Limited
 Burrard Yarrows Corporation
 - Vancouver & Victoria Divisions
 Collingwood Shipyards
 Davie Shipbuilding Limited
 Halifax Industries Limited
 Marine Industries Limited
 Marystown Shipyard Limited

Newfoundland Dockyard
 Pictou Industries Limited
 Port Arthur Shipbuilding
 Port Weller Dry Docks
 Rivtow Industries Limited
 Saint John Shipbuilding & Dry Dock Co., Ltd.
 Vancouver Shipyards Co., Limited
 Versatile Vickers Inc.

ASSOCIATE MEMBERS - MEMBRES ASSOCIES

Breton Industrial & Marine Ltd.
 Georgetown Shipyard Inc.
 Herb Fraser & Associates Limited

Montreal Tankers Repairs Inc.
 Purvis Navcon Shipyard Ltd.
 Verreault Navigation Inc.

ALLIED INDUSTRIES MEMBERS - MEMBRES INDUSTRIES CONNEXES

Acres Consulting Services Limited
 Albery, Pullerits, Dickson & Associates
 Alfa-Laval Limited
 Algoma Steel Corporation, Limited
 Robert Allan Limited
 A&P Appledore Canada Ltd.
 Arctec Canada Limited
 Atlas Maritime Electronics Inc.
 BBC Brown Boveri Canada Inc.
 Beldam Lascar Packing Ltd.
 BG Marine
 Bombardier Inc.
 Brock Marine Ltd.
 Burrard Iron Works Limited
 Calcom Electronics Ltd.
 Canadian General Electric
 Canadian Marconi Company
 Canadian Stone Marine Limited
 College of Fisheries, Navigation, Marine
 Engineering & Electronics
 Crane Packing Company Limited
 Cullen Canadian Inc.
 DAF Indal Limited
 Delaval Turbine Canada Limited
 Devoe Marine Coatings of Canada Ltd.
 Diamond Canapower Limited
 Dowty Canada Limited
 EG & G Sealol Canada
 Erwel Inc.
 GEC Diesels Inc.
 German & Milne Inc.
 Hamworthy Canada Limited
 Peter S. Hatfield Limited
 Hawker Siddeley Canada Incorporated
 Hawker Siddeley Diesels & Electrics Ltd.
 John T. Hepburn Limited

Hurum Marine Inc.
 Ingersoll Rand Canada
 International Paints (Canada) Ltd.
 Joiner Systems JSC Canada Ltd.
 KHD Canada Inc.
 J. Kobelt Manufacturing Co. Ltd.
 Krupp MaK Canada Incorporated
 Lips N.V. Canada Inc.
 Litton Systems Canada Limited
 Lo-Rez Vibration Control
 MacGregor-Navire (Canada) Inc.
 M.A.N.-GHH (Canada) Inc.
 Norris Warming Canada Limited
 Osborne Propellers Limited
 Pacific Winches Ltd.
 Pall (Canada) Limited
 Peacock Inc.
 Pratt & Whitney Canada Inc.
 Pyramid Transit Products Ltd.
 Racal-Decca Canada Inc.
 Raytheon Canada Limited
 Rolls-Royce Industrial & Marine Limited
 Siemens Electric Limited
 Spar Aerospace Limited
 Sperry
 Stelco Inc.
 Stephens-Adamson Limited
 Stork Werkspoor Canada Limited
 Victor V.R. Symonds & Associates
 Turmot Inc.
 Ubique Riley Enterprises Limited
 Union Carbide Canada Limited, Linde
 Versatile Vickers Systems Inc.
 Wagner Engineering Ltd.
 Wormald Fire Systems Inc.

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